

November 2000

DLB 00-51

Subject: New Repayment Incentive Benefits--Second Question and Answer
Document: Interest Rate Reduction for Direct Consolidation Loans

Dear Partner:

This is the second in a series of Question and Answer documents about the two new Direct Loan Program repayment incentive benefits that were announced by President Clinton and Secretary Riley in August. This document answers borrowers' questions about the interest rate reduction for Direct Consolidation Loans.

While your school does not need to do anything to implement the interest rate reduction for Direct Consolidation Loans, we encourage you to inform your borrowers of this new repayment incentive benefit through your correspondence, publications, and counseling. This Question and Answer document should assist you in this effort. You can obtain general information about Direct Consolidation Loan eligibility by referring to our "Direct Consolidation Loan Guide for Schools," checking our consolidation website at <http://www.loanconsolidation.ed.gov>, or calling our Consolidation Department on 1-800-557-7392 (voice) or 1-800-557-7395 (TDD for the hearing impaired).

We hope the information is helpful, and thank you for your ongoing partnership in the Direct Loan Program.

Sincerely,

Jane Holman
Acting Director, Title IV Delivery
Schools Channel

Applying the Interest Rate Reduction Benefit

1. What is the new repayment incentive benefit that affects Direct Consolidation Loans?

The new repayment incentive benefit is an interest rate reduction of 0.8 percent that will be provided to all eligible Direct Consolidation Loan borrowers. The interest rate that otherwise would apply to the Direct Consolidation Loan will be lowered by 0.8 percent.

2. Which Direct Consolidation Loans will receive the 0.8 percent interest rate reduction?

A Direct Consolidation Loan will receive the 0.8 percent interest rate reduction if--

- The Direct Consolidation Loan is made on or after October 1, 2000
- AND**
- The application is postmarked, transmitted electronically, or taken over the telephone no later than September 30, 2001.

Note: A Direct Consolidation Loan is "made" when the first payoff on a loan that is being consolidated occurs. There are other terms that basically have the same meaning as "made" for these purposes. These terms are "booked" and "first disbursed." You will find all three terms used throughout our consolidation materials.

3. How do I apply for a Direct Consolidation Loan?

You have several choices when applying for a Direct Consolidation Loan. Your choices are--

- **On-line Application**--Apply on line on our consolidation website at <http://www.loanconsolidation.ed.gov>. Applying on line is fast and easy and reduces processing time and errors.
- **Express Application**--Apply by phone on 1-888-758-9730 if you are only consolidating Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans, and/or Direct Consolidation Loans.
- **Paper Application**--Complete and mail a paper application to our Consolidation Department. You may obtain a paper application package by:
 - Calling our Consolidation Department on 1-800-557-7392 (voice) or 1-800-557-7395 (TDD for the hearing impaired) from 8 AM to 8 PM (EST), Monday through Friday;
 - E-mailing our Consolidation Department at loan_consolidation@mail.ed.gov; or
 - Downloading the package under "Forms and Publications" on our consolidation website at <http://www.loanconsolidation.ed.gov>.

4. Are there any restrictions on the types of loans that I may include in a Direct Consolidation Loan that receives the 0.8 percent interest rate reduction?

No. You may include any otherwise eligible loan under the Direct Loan, Federal Family Education Loan (FFEL), Perkins, and health professions programs in a Direct Consolidation Loan that receives the 0.8 percent interest rate reduction. This includes consolidation loans that you received previously under the Direct Loan and FFEL programs.

5. May I include loans that are in in-school, grace, or repayment status in a Direct Consolidation Loan that receives the 0.8 percent interest rate reduction?

Yes. You may include loans that are in in-school, grace, or repayment status in a Direct Consolidation Loan that receives the 0.8 percent interest rate reduction.

6. If I have a deferment or a forbearance on loans that have entered repayment, may I include them in a Direct Consolidation Loan that receives the 0.8 percent interest rate reduction?

Yes. You may include loans on which you have a deferment or a forbearance in a Direct Consolidation Loan that receives the 0.8 percent interest rate reduction. After your Direct Consolidation Loan is made, however, you must apply for a deferment or a forbearance on the new loan.

7. May I include a loan that is in default status in a Direct Consolidation Loan that receives the 0.8 percent interest rate reduction?

In general, you may include a loan that is in default status in a Direct Consolidation Loan that receives the 0.8 percent interest rate reduction if you have made satisfactory repayment arrangements with the holder of the defaulted loan or if you agree to repay your Direct Consolidation Loan under the Income Contingent Repayment Plan. However, if you have defaulted on a Direct Consolidation Loan that originally included defaulted loans, you are not eligible to consolidate again under the Direct Loan Program.

8. I am considering consolidating my loans jointly with my spouse's loans. Will joint Direct Consolidation Loans receive the 0.8 percent interest rate reduction as well?

Yes. Joint Direct Consolidation Loans will receive the 0.8 percent interest rate reduction.

Note: You should weigh carefully the decision to consolidate your loans jointly with your spouse's loans. When you consolidate jointly with your spouse, you are held jointly and severally liable for the entire Direct Consolidation Loan. If one of you dies, the surviving spouse must continue to repay the entire debt. Also, if you

divorce, both of you are responsible for repaying the entire debt. Finally, to receive a deferment, a forbearance, or certain discharges on the loan, both of you must qualify for the benefit. If you and your spouse have separate loans, you only need to meet the required conditions for your own loans.

9. If I add loans to a Direct Consolidation Loan that was made before October 1, 2000, will my Direct Consolidation Loan receive the 0.8 percent interest rate reduction?

No. In this case, your Direct Consolidation Loan will not receive the 0.8 percent interest rate reduction because the first loan payoff occurred before October 1, 2000.

As an example--

- We first paid off loans that you wanted to consolidate on August 15, 2000. This is the date that your Direct Consolidation Loan was made.
- Then, you asked that we pay off more loans and add them to the same Direct Consolidation Loan. We did this on October 15, 2000.
- Even though some loans were paid off after October 1, 2000, the first loan payoff occurred before this date on August 15th.
- As a result, this Direct Consolidation Loan would not be eligible for the 0.8 percent interest rate reduction.

You can, however, receive the 0.8 percent interest rate reduction by consolidating your Direct Consolidation Loan that was made before October 1, 2000 either by itself or with other eligible loans into a new Direct Consolidation Loan. This is called "reconsolidating" your Direct Consolidation Loan.

10. Are there any cases in which I may not reconsolidate my Direct Consolidation Loan that was made before October 1, 2000 to receive the 0.8 percent interest rate reduction?

Yes, there is one case. As explained in Q&A #7, if you have defaulted on a Direct Consolidation Loan that originally included defaulted loans, you are not eligible to reconsolidate under the Direct Loan Program.

11. How do I reconsolidate my Direct Consolidation Loan that was made before October 1, 2000 to receive the 0.8 percent interest rate reduction?

You must apply for a new Direct Consolidation Loan. See Q&A #3 for information about applying for a Direct Consolidation Loan.

12. If I add loans to a Direct Consolidation Loan that receives the 0.8 percent interest rate reduction, will the reduction apply to the additional loans?

Yes, provided that you add the loans within 180 days of the date that your Direct Consolidation Loan was made. Any eligible loans that are added within the 180-day

period become part of the Direct Consolidation Loan. Because the Direct Consolidation Loan received the 0.8 percent interest rate reduction, the entire loan--including the amount of the loans that are added within the 180-day period--will receive the reduction. As an example--

- We first pay off loans that you want to consolidate on August 15, 2001. This is the date that your Direct Consolidation Loan is made.
- Your Direct Consolidation Loan receives the 0.8 percent interest rate reduction.
- Then, you ask that we pay off more loans and put them in the same Direct Consolidation Loan. We do this on October 15, 2001--within 180 days of the date that your Direct Consolidation Loan was made.
- As a result, the entire loan--including the amount of the loans that are added within the 180-day period--will receive the 0.8 percent interest rate reduction.

Note: If you want to add loans to your Direct Consolidation Loan that received the 0.8 percent interest rate reduction after the 180-day period, you may do so by reconsolidating your Direct Consolidation Loan with the additional loans. However, this may not always be to your advantage. If you find yourself in this situation, call our Consolidation Department on 1-800-557-7392 (voice) or 1-800-557-7395 (TDD for the hearing impaired) for guidance.

Lowering the Interest Rate

13. If the interest rate on my Direct Consolidation Loan is lowered by 0.8 percent, will I need to do anything to keep the lower rate?

Yes. To keep the lower interest rate on your Direct Consolidation Loan, you must make all of your first twelve required monthly payments on time. To be counted as "on time," the Direct Loan Servicing Center must receive each payment no later than six calendar days after the payment due date. If you do not fulfill the 12-payment requirement by making all of your first twelve required monthly payments on time, you will lose the lower interest rate.

Note: We will post more information about the 12-payment requirement on our consolidation website at <http://www.loanconsolidation.ed.gov> and on our servicing website at www.dlservicer.ed.gov in the very near future.

14. How will the interest rate be lowered on my Direct Consolidation Loan before I fulfill the 12-payment requirement?

When your Direct Consolidation Loan is made, the interest rate will be the weighted average of the interest rates on the loans that you consolidate rounded up to the nearest higher one-eighth of one percent or 8.25 percent--whichever is less. This will be the "interest rate of record" for your Direct Consolidation Loan, and you will see this rate on statements related to your Direct Consolidation Loan.

Until you fulfill the 12-payment requirement by making all of your first twelve required monthly payments on time, the Direct Loan Servicing Center will subtract 0.8 percent from the interest rate of record when it calculates how much interest is owed on your Direct Consolidation Loan. As an example--

- When your Direct Consolidation Loan is made, the interest rate of record is determined to be 8.25 percent.
- You see the interest rate of record--8.25 percent--on your statements.
- Until you fulfill the 12-payment requirement, the Direct Loan Servicing Center will subtract 0.8 percent from 8.25 percent and use the result--7.45 percent--when it calculates how much interest is owed on your Direct Consolidation Loan.

15. Will the lower interest rate be reflected in the monthly payment amount on my Direct Consolidation Loan before I fulfill the 12-payment requirement?

No. Until you fulfill the 12-payment requirement, the Direct Loan Servicing Center will use the higher interest rate of record to calculate your monthly payment amount. Using the example in Q&A #14, your monthly payment amount would be calculated using the 8.25 percent interest rate of record--not the lower rate of 7.45 percent. However, the amount of interest that you actually owe for that month would be calculated using the lower rate of 7.45 percent so more of your monthly payment will be applied to the outstanding principal balance on your loan.

Note: Until you fulfill the 12-payment requirement, you will see the higher interest rate of record--not the lower rate--on statements related to your Direct Consolidation Loan.

16. What will happen to the interest rate of record and the monthly payment amount on my Direct Consolidation Loan when I fulfill the 12-payment requirement?

After you fulfill the 12-payment requirement by making all of your first twelve required monthly payments on time, the Direct Loan Servicing Center will change the higher interest rate of record to the lower rate. The changing of the interest rate of record to the lower rate is permanent, and you will keep the lower rate throughout the remaining life of your loan.

When the interest rate of record is changed to the lower rate, the Direct Loan Servicing Center also will recalculate your monthly payment amount. Using the example in Q&A #14, the interest rate of record would be changed permanently to the lower rate of 7.45 percent, and your monthly payment amount would be recalculated using the 7.45 percent rate. The Direct Loan Servicing Center would notify you of your new monthly payment amount.

17. If I choose to pay my Direct Consolidation Loan that receives the 0.8 percent interest rate reduction through the Electronic Debit Account (EDA) repayment option, will I receive an additional interest rate reduction of 0.25 percent?

Yes. If you choose to pay your Direct Consolidation Loan that receives the 0.8 percent interest rate reduction through the EDA repayment option, the Direct Loan Servicing Center will lower the interest rate that it uses to calculate the amount of interest that you actually owe each month by an additional 0.25 percent. Using the example in Q&A #14, the Direct Loan Servicing Center would subtract 0.25 percent from the lower rate of 7.45 percent and use the result--7.20 percent--when it calculates the amount of interest that you actually owe on your Direct Consolidation Loan each month.

In addition to getting an even lower interest rate on your Direct Consolidation Loan, paying through the EDA option will help to ensure that your payments are made on time so that you keep the 0.8 percent interest rate reduction throughout the life of your loan. Under the EDA option, your bank automatically deducts your monthly Direct Loan payment from your checking or savings account. We will send you information about the EDA option. Or, you can check our servicing website at www.dlservicer.ed.gov or call the Direct Loan Servicing Center at 1-800-848-0979 for more information about the EDA option.

Losing the Lower Interest Rate

18. What happens to the interest rate of record on my Direct Consolidation Loan if I do not fulfill the 12-payment requirement by making all of my first twelve required monthly payments on time?

The Direct Loan Servicing Center will check your loan account after your twelfth required monthly payment. If you have not made all of your first twelve required monthly payments on time, a couple of things will happen. First, the Direct Loan Servicing Center will not change the interest rate of record on your Direct Consolidation Loan from the higher rate to the lower rate. Second, the interest that you actually owe each month will no longer be calculated at the lower rate. Using the example in Q&A #14, the interest rate of record would continue to be 8.25 percent, and the interest that you owe each month would be calculated using the 8.25 percent rate.

19. If I lose the lower interest rate on my Direct Consolidation Loan, will the interest on my loan be recalculated at the higher rate from the date the loan was made?

No. The Direct Loan Servicing Center will calculate the interest owed on your Direct Consolidation Loan at the higher rate beginning at the point that you lose the lower rate.

Paying Off My Direct Consolidation Loan

20. If I pay off my Direct Consolidation Loan in full before I fulfill the 12-payment requirement, will the interest on my loan be recalculated at the higher interest rate of record?

No. The interest outstanding on your Direct Consolidation Loan will be calculated using the lower interest rate when you pay off your loan in full--either on your own or through another consolidation--before you fulfill the 12-payment requirement. Using the example in Q&A #14, the Direct Loan Servicing Center would use the lower rate of 7.45 percent to calculate the interest outstanding on your Direct Consolidation Loan.

21. Is the answer to Q&A #20 true even if I have not made all of my required monthly payments on time up to the point that I pay off my loan in full?

Yes. Even if you have not made all of your required monthly payments on time when you pay off your loan in full anytime before you fulfill the 12-payment requirement, the interest outstanding on your Direct Consolidation Loan will be calculated using the lower interest rate. Using the example in Q&A #14, the Direct Loan Servicing Center would use the lower rate of 7.45 percent to calculate the interest outstanding on your Direct Consolidation Loan.

22. If I consolidate my Direct Consolidation Loan before I fulfill the 12-payment requirement, which interest rate--the higher interest rate of record or the lower interest rate--will be reported to the consolidation lender?

If you consolidate your Direct Consolidation Loan before you fulfill the 12-payment requirement, the Direct Loan Servicing Center will report the higher interest rate of record to the consolidation lender. The consolidation lender will then use this rate to determine the interest rate on your new consolidation loan. Using the example in Q&A #14, the Direct Loan Servicing Center would report the 8.25 percent interest rate of record to the consolidation lender, and the consolidation lender would use this rate to determine the interest rate on your new consolidation loan.

23. If I consolidate my Direct Consolidation Loan after I fulfill the 12-payment requirement, which interest rate will be reported to the consolidation lender?

The Direct Loan Servicing Center will always report the interest rate of record to the consolidation lender.

If you made all of your first twelve required monthly payments on time--

The Direct Loan Servicing Center will report to the consolidation lender the interest rate of record that reflects the official change of the interest rate of record to the lower rate. Using the example in Q&A #14, your interest rate of record would have been

changed from 8.25 percent to 7.45 percent because you had made all of your first twelve required monthly payments on time. Therefore, the Direct Loan Servicing Center would report the 7.45 percent interest rate of record to the consolidation lender. The consolidation lender would use the 7.45 percent rate to determine the interest rate on your new consolidation loan.

If you did not make all of your first twelve required monthly payments on time--

The Direct Loan Servicing Center will report to the consolidation lender the higher interest rate of record that was calculated when your Direct Consolidation Loan was made. Using the example in Q&A #14, the higher interest rate of record of 8.25 percent would not have been changed to the lower rate because you did not make all of your first twelve required monthly payments on time. Therefore, the Direct Loan Servicing Center would report the 8.25 percent interest rate of record to the consolidation lender. The consolidation lender would use the 8.25 percent rate to determine the interest rate on your new consolidation loan.

24. If I reconsolidate my Direct Consolidation Loan that received the 0.8 percent interest rate reduction, will I receive an additional 0.8 percent interest rate reduction?

No. The total interest rate reduction amount that you are entitled to under this repayment incentive benefit program is 0.8 percent. If you reconsolidate your Direct Consolidation Loan that received the 0.8 percent interest rate reduction, our servicing and consolidation systems will ensure that you do not receive more than the total 0.8 percent reduction authorized under this program.